CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM COMPENSATION POLICIES AND PROCEDURES FOR CAREER EXECUTIVE POSITIONS

Background

In March 1998, the CalPERS Board of Administration and the Department of Personnel Administration approved a new compensation plan for career executives to be administered by the Chief Executive Officer. CalPERS utilizes Career Executive Assignment (CEA) positions as Assistant Executive Officers and as managers of divisions, offices and major projects.

The new plan combines base pay, the level of which is derived from intrinsic relative job worth and performance appraisal, and incentive pay, based on accomplishment of critical, agreed-upon objectives and successful performance of critical competencies, including effective communication.

Base Compensation

Policy

CalPERS career executives are part of a larger civil service compensation plan. For this reason, their levels of compensation must "fit" within a structure authorized and periodically modified by the Department of Personnel Administration. Positions have been grouped into two broad bands: Assistant Executive Officer and Division Chief/Project Manager. Within each band, two levels have been established to reflect differences in intrinsic job worth based on an assessment of assigned responsibilities. Movement between bands is competitive and compensation accompanies the appointment; movement within levels is based on performance appraisal; movement between levels within a band is considered a transfer.

Procedures

Each of the four levels has a minimum rate and control point rate. These rates will be changed in concert with changes in the State's general pay plan.

Appointment to a CEA position will generally result in an increase of 5% or the minimum assigned to the appropriate level. Once appointed, executives whose compensation is below the control point may receive an annual increase of 5% based on their appraised performance, utilizing the annual CEA Leadership Performance Review.

Appointment to a higher band or a higher level within a band will generally result in an increase of 5% or the minimum of the appropriate level. Appointment to a lower level within the CEA structure will not result in an immediate reduction in compensation. A "red circle" rate will be provided to maintain the prior level. As the State's structure increases, this "red circle" will be absorbed and the executive will not receive additional increases until compensation is within the level.

Revised 8/00

Periodically, the State adjusts the career executive compensation structure. When this occurs, the Department of Personnel Administration may provide direction as to how individual base pay should be adjusted. In instances where CalPERS has this responsibility, adjustments will generally be included in the annual base pay adjustment process.

Base pay adjustments normally take place at the beginning of each fiscal year, based on recommendations to the Deputy Executive Officer/Chief Executive Officer from the career executive's supervisor.

Exceptions to the policies and procedures governing base compensation may be made by the Deputy Executive Officer/Chief Executive Officer for extraordinary recruiting and retention needs, subject to the general policies of the Department of Personnel Administration.

Incentive Compensation

Policy

The basic principle underlying incentive compensation is that executives should be recognized, in part, for their contribution to the accomplishment of an organization's critical objectives and to the nourishing of its core values. The CalPERS career executives' compensation program provides an opportunity for each individual to earn an annual incentive payment. The maximum payment available will vary based on the funding provided for increases. The available fund will generally be in the 10 to 15% range.

Two factors determine the final annual incentive payment. The first factor, weighted 70%, is based on specific, measurable objectives. The second, derived from the concept of managerial competence, is weighted 30%. This competence assessment results from the annual CEA Leadership Performance Review.

Procedures

Individual objectives are the critical factor in the incentive compensation plan, determining 70% of the incentive award. They are prepared at the beginning of each fiscal year, covering five to eight important deliverables linked to strategic or operational objectives. Each objective is measurable as to outcome and has a completion date. They are reviewed by appropriate intervening levels and by the Deputy Executive Officer/Chief Executive Officer. Once approved, they typically may be modified only when there has been an environmental change that could not have reasonably been expected to develop. Proposed changes should be initiated when the need is recognized. A status report and evaluation of progress is required midway though the fiscal year. At the end of the year, each executive reports outcomes, which are reviewed at appropriate levels and submitted to the Deputy Executive Officer/Chief Executive Officer for use in the incentive compensation process.

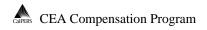
Revised 8/00 2

CEA Compensation Program

With respect to the competence driven portion of the incentive (determining 30% of the payment), the CEA Leadership Performance Review may be augmented by other evaluative tools which indicate the executive's success in achieving the organization's communication goals and core values.

The level of objectives assessment and the management competence and leadership evaluation will be combined to determine the specific incentive award. For executives who are appointed during the fiscal year, the awards will be prorated according to the number of months in the Career Executive Assignment (CEA) position.

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ROLES AND RESPONSIBILITIES - CAREER EXECUTIVE COMPENSATION

	L. B. J. J. J. F	Deputy Executive Officer and Assistant	Human Resources	Chief
	Individual Executive	Executive Officers	Staff	Executive Officer
CEA Objectives	Prepares	Reviews/Recommends	Coordinates Development of Plans	Approves
Executive Evaluation:				
 CEA Objectives 	Prepares Self-Evaluation	Reviews/Recommends	Coordinates/Processes	Approves
 CEA Leadership Performance Review 	Reviews	Completes	Coordinates/Processes	Reviews/Utilizes
Compensation Decision		Reviews/Recommends	Coordinates/Processes	Approves

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